

Federal-State Relations and Grants-in-Aid

By OVETA CULP HOBBY

THE VERY GROWTH of government has made it more difficult to keep in touch with it; to keep it in touch with the people. Along with growth has come a shift of responsibility, from local to State, and from State to national government. Again it is hard to realize that only 40 years ago local governments—cities, counties, and school districts—collected and spent about two-thirds of all taxes in this country. The State and national governments shared the remainder. That meant that, in the main, government was close to the people. In local government people know and understand more readily what goes on. They know their officials personally. If they don't like what is done, they know whom to hold responsible.

Today the situation is quite different. The Federal Government now collects about three-fourths of all taxes, and States and local governments share the remainder. Local governments now get less than one-eighth instead of the former two-thirds of the Nation's tax dollar. The expansion of government activities has been at the State and national level. Government has tended to move away from the people.

Then, too, with the general increase in governmental activity the dividing line between functions of local and State and national gov-

ernment has become blurred. The States and the Federal Government now engage in many activities which were formerly left to local government, or to private interests. We have only to look at the various programs administered by our new Federal Department of Health, Education, and Welfare to see what has happened. Practically all of our expenditures in this Department are for purposes, for functions which are entirely new to the Federal Government within the last 20 years. In many instances these functions are new also to State and local governments. And instead of any given function being carried on by some 1 level of government, all 3 levels—local, State, and national—are frequently concerned with the same functions.

Partners, Not Rivals

Federal participation in all these fields is largely financial, in the form of grants-in-aid to the States. The actual administration is in the hands of State and local authorities. In public assistance, for example—which is by far the largest and the most expensive of our many grant programs—99.6 percent of the money appropriated by Congress is passed on to the States, and States frequently pass it on to the localities. But in making the grants Congress imposes certain conditions. It requires certain standards to be observed in the use of the money. This means that the national agency must interest itself, to some extent, in State and local administration. That gives rise to the charge of Federal interference or Federal dictation which we hear so frequently in con-

The Secretary of Health, Education, and Welfare discussed intergovernmental relations in the Federal system before the Pasadena (Calif.) Chamber of Commerce on August 27, 1953. The excerpt here deals primarily with concepts of grants-in-aid.

nection with the grant programs. This is the crux of the problem of Federal-State relations.

To me this appears to be one of the most crucial problems of our governmental system today. You will note that I suggested as my topic, "The Federal-State Partnership." That was a quite deliberate choice. I think too often we regard the Federal Government and the States as rivals, each trying to extend its jurisdiction and each trying to get a larger share of the citizen's limited tax dollars. That is not a sound conception of intergovernmental relations in a Federal system. It may be that some of our difficulties in this field derive in part from such a philosophy. I prefer to think of the States and the Federal Government as partners, each doing its share in the overall business of government. I am sure government can serve the people better if we take that point of view.

I'm glad to see this question of Federal-State relations, of grants-in-aid, getting so much public attention. I understand your national organization recently sponsored a conference on the subject. The Governors' Conference at Seattle devoted a half-day to it. And Congress, at the President's request, has established a Commission on Intergovernmental Relations to study the whole subject and make recommendations for action. With this study pending I shall certainly not attempt, today, to produce all the answers. I don't know the answers. But I do know many of the problems, and I should like to think with you about how this idea of a Federal-State partnership can be applied to some of these problems.

For purposes of discussion I shall talk in terms of programs within my own Department. There are other grant programs, of course, and I suppose there are problems of Federal-State relations in these programs, too. But the bulk of Federal grants are in the fields of health and welfare, and the principles with which I shall deal are applicable, I am sure, to grants-in-aid anywhere.

Allocations of Functions

In the first place I think we must recognize that whatever is done about grants-in-aid, the activities now supported in part by grants will

continue. While they may have been stimulated, in the first instance, by grants, they have become so much an established part of State and local government services that they are not likely to be much decreased. In this discussion, therefore, we are not concerned with whether or not a given function should be dropped or continued, but rather with who shall perform certain functions, and how they shall be financed.

There are two different ways in which we may approach this question. We may try to separate the functions, allocating some to the Federal Government and some to the States—and perhaps some others to the local communities. Each jurisdiction would presumably be fully responsible for the function in question. This allocation of functions is the usual suggestion. It has much to recommend it. It is simple; responsibility and authority are clear and undivided. There can be no overlapping, or duplication, or conflict. To the extent that programs can be adequately maintained in this way, without undue burden in some parts of the country, it seems to me this would be a desirable solution for at least some of the problems.

Even so, it is not always easy to determine which functions should be performed by the States and which by the National Government. Both are interested in the welfare of the people. But ours is a Federal system and the Federal Government is now so burdened with international and strictly national matters that wherever possible what might be called the domestic functions should, I believe, be left to the States. Of course there is always the temptation to assume that the larger jurisdiction is necessarily wiser or stronger and can perform a given function better than the smaller jurisdiction. This is a temptation we must resist. The strength of our Nation lies not in building up a huge central government but in maintaining strong and vital State governments. As President Eisenhower said to the Governors at Seattle, unless we find ways to strengthen and vitalize State governments, our system of government as we have known it will cease to exist. I believe, therefore, that insofar as possible most of these activities with which we are concerned should be decentralized to the States.

Here we run into some serious difficulties. These activities are expensive. In many States welfare costs are second only to the cost of education in State budgets. For the country as a whole, the Federal Government, through grants, bears a little over half of this cost. If these grants were to be discontinued and the States attempted to carry on their programs, the increased burden on State treasuries would be enormous. And unfortunately the largest relative burden would fall on the States with low incomes. These are the States where the Federal Government now contributes 60 to 70 percent, or even more, of the cost of some of these programs. And, in the main, these States are already taxing their resources very heavily, in some instances 20 to 25 percent more than the national average. It is difficult to see where they would find the revenues to carry on these services even at a minimum level.

Exchanging Taxes for Grants

To help meet this situation it is generally proposed that certain taxes now collected by the Federal Government be discontinued so that the States can use these sources of revenue. I might point out, in passing, that such an exchange of taxes for grants would not relieve the Federal budget in any way. Also, it is by no means as simple and complete a solution of the problem as it appears on the surface. If the Federal Government discontinues a given tax it must apply that policy nationwide. It cannot collect a given tax in one State and not in another. Unfortunately there is no assurance that any tax or group of taxes which might be selected to be turned over to the States will provide revenues, in individual States, which will be in any way related to the need for funds to replace the grants which are to be discontinued.

Let me illustrate what I mean. It is commonly suggested that the taxes on amusement, and on local telephone service, and the gift and death taxes would be suitable for State rather than Federal collection. This seems reasonable. These particular taxes would be as evenly distributed among the States as any that could be found. The total yield of those three taxes is about equal to the total grants made by our Department. But the distribution among the

States of the grants now being made, and of the potential tax yields, would be quite different. In general, the taxes would provide revenue largely in the States with high per capita incomes, while grants go somewhat more to States with low incomes. The 29 States with incomes below the national average get about 52 percent of the grants made by our Department, but they would get only 25 percent of these taxes. In individual States the difference is even more striking. Several States with the highest per capita incomes would derive 3, and even 4 times as much from these taxes as they now get in grants; while some States with much lower incomes would collect in taxes only one-fourth as much as they are getting in grants.

Needs of the Low Income States

This points up the basic problem which must be faced. The needs which are to be met—aid to the aged, blind, the disabled, and assistance to mothers and dependent children, and so forth—are greatest in the States where incomes are relatively low. In these States, resources to meet the needs are limited. In States where incomes are high and resources relatively more adequate, the need to be met is much less. And any attempt to give the States added tax revenues instead of grants will give relatively more aid to those States with large resources, and relatively less to those with small resources.

In such a situation a complete decentralization of these functions seems impracticable. We have, here, the basic reason for grants-in-aid. The grant is another form of Federal-State partnership. Instead of each partner assuming complete responsibility for certain functions, each contributes to a given function that which he can do best. Unquestionably these programs can be administered best by State and local authorities. That responsibility should be theirs. It is equally clear that many States cannot raise the necessary revenues to finance the programs without unconscionable tax burdens on their limited resources. The grant is a device through which the national government and the States cooperate; the Federal Government using its overall taxing authority to provide funds, and granting these funds to the individual States so they can meet

the needs of their people without too heavy a tax burden in individual States.

I realize that this grant-in-aid procedure is not without its dangers. If there are too many conditions attached, if there is too much detailed supervision by the granting agency, a system of grants may result in expensive and confused administration and in centralized control. It has sometimes worked that way. But this is not inevitable. There is no need to throw out the baby with the bath. I am convinced that the necessary conditions can be made simple and clear, so these difficulties need not arise. Supervision and control, too, can then be at a minimum and consist, in the main, of consultation and help to the States in improving their programs. So constructed and so administered a system of grants-in-aid will not weaken State government or centralize controls. On the contrary, by enabling States to meet the increasing demands made upon them, such grants will constitute a real source of strength for State governments.

To summarize then, this business of govern-

ment has become so huge, and so complex that the Federal Government and the States must share responsibility; they must act as partners in serving the people. In the main, every function should be the responsibility of one level of government, to avoid overlapping and confusion. The Federal Government has such heavy responsibilities in connection with international and purely national matters that the domestic functions should be left to States insofar as possible. But the industrial and financial structure of our country is such that much of the tax-paying ability is located in a limited number of States, while other States lack resources to carry on alone some of the essential services. And the Nation as a whole does have a residual responsibility, even for some of these domestic functions, in situations where individual States are unable to provide them. In such circumstances a system of grants-in-aid, properly organized and administered, can assist States in meeting their obligations and prevent the transfer of these functions to the central government.

Sixth Annual Venereal Disease Symposium

The Sixth Annual Symposium on Recent Advances in the Study of Venereal Diseases will be held at the Department of Health, Education, and Welfare auditorium in Washington, D. C., on April 29-30, 1954. All interested physicians and allied workers are invited to attend and to participate in the program. Requests for a place on the program, together with titles and tentative abstracts of papers should be forwarded to Dr. James K. Shafer, chief, Division of Venereal Disease, Public Health Service, U. S. Department of Health, Education, and Welfare, Washington 25, D. C.